AWM Aretian
WEALTH MANAGEMENT

YOUR GUIDE TO

CHILDREN AND MONEY

CREATING A FINANCIAL PLAN THAT'S FIT FOR YOUR FAMILY

PASSING ON YOUR FINANCIAL KNOWLEDGE AND EXPERIENCE

10 CRUCIAL THINGS
YOUNG ADULTS NEED TO KNOW FOR FINANCIAL SUCCESS

HOW MUCH DO YOU KNOW ABOUT FINANCIAL EDUCATION?

Take the quiz and find out!

Setting out a financial plan and thinking about your long-term goals if you have a family is important. It can help ensure you reach your goals and create security for you and future generations.

For parents and grandparents, thinking about family when setting out your financial plan can help you protect the people that are most important to you and help you get a head start on milestones you may want to help loved ones with.

Perhaps you want your children to go to private school or leave behind an inheritance that will create later life financial security? By making family a core part of your financial plan, you're more likely to turn these goals into a reality.

The first section of this guide looks at practical things you can do to create financial security, like writing a will or opening a savings account for a child, and answers some questions you may have, such as: should I create a trust to pass on wealth?

It's not just about the financial support we're able to offer family either. Passing on knowledge and experience can be crucial in creating long-term security for the next generation. The second part of this guide looks at how you can help children and grandchildren lay the foundations for financial security in adulthood.

If you have any questions about how to build a financial plan that's suitable for your family and goals, please contact us:

info@aretianwealth.co.uk

020 4526 4444

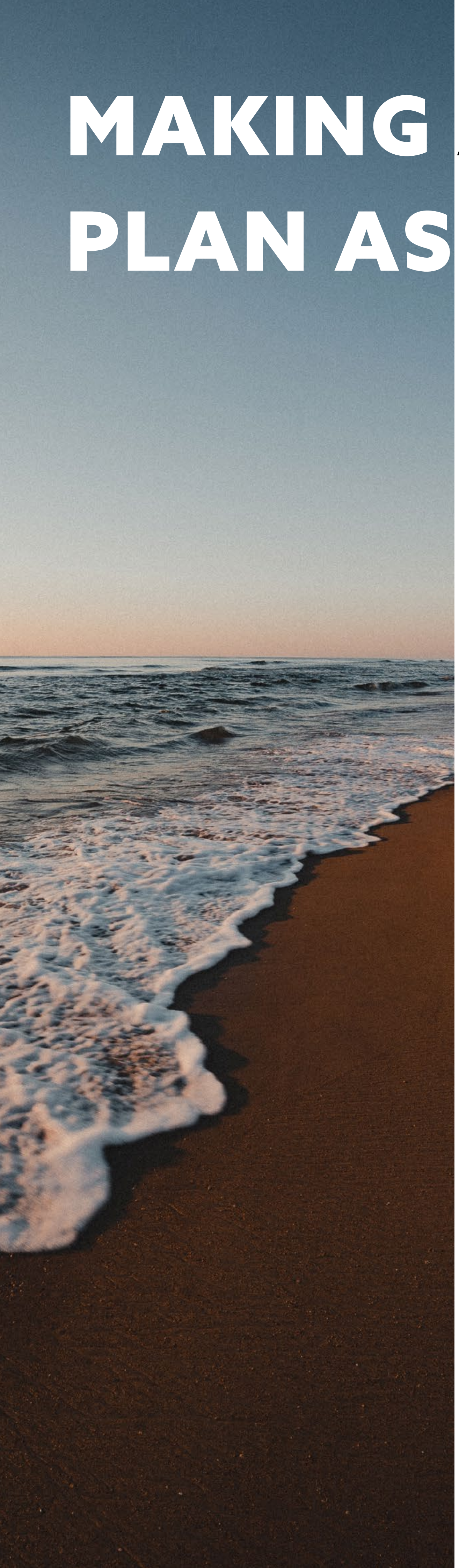
PART ONE:

CREATING A FINANCIAL PLAN THAT'S FIT FOR YOUR FAMILY

This section of our guide explains some of the practical things you can do to improve the financial security of your family.

Some things within this section you may already have done. Others you should do now, like ensuring you have a will in place. Others may not be something you're ready to start thinking about yet, such as whether providing gifts during your life makes sense, but understanding your options is still useful.

Taking steps now and thinking about the future can help you improve financial security in the short and long term.



MAKING A FINANCIAL PLAN AS A FAMILY

When you start making a financial plan it will often start with a question: what do you want to achieve?

If you have children, it's important to review your financial plan with your family in mind. Having children is likely to affect the way you use your income.

Childcare bills, for instance, may mean you're no longer putting the same amount away in savings as you were before. Each year, the Child Poverty Action Group releases a report calculating how much it costs to raise a child. In 2023, the group estimated the cost of raising a child to age 18 for a couple is £166,000. As a result, you may need to update your financial plan to reflect day-to-day changes.

Understanding how your changing circumstances could affect short- and long-term goals means you're in a position to make adjustments to ensure those that are important to you remain on track.

> The total cost of raising a child to 18 is calculated at £166,000 for a couple or £220,000 for a single parent
>
> **Source:** Child Poverty Action Group

As well as changing day-to-day expenses, a growing family may mean you now have very different goals. You may now want to include things like:

- Paying private school fees
- Building a nest egg to pay for university
- Using savings to help children buy their first home
- Leaving an inheritance.

These goals can still seem a long way off when children are young but planning for them as soon as possible makes sense. It can provide peace of mind and give you confidence that your family will be secure even if the unexpected happens. Having a financial plan that considers your family means you can focus on what's most important to you.

HOW MUCH DO YOU NEED TO SAVE?

School fees: £268,000

Figures from the Independent School Council (ISC) suggest parents wanting to send children to private school will need around £268,000 in total to fund their education until they are 18. For day schools, the average costs for each term were £5,816 for junior school pupils (ages 5–11), £7,620 for senior school (ages 11–16), and £8,134 for sixth form (ages 16–18). If you wanted to include boarding, the total cost would rise to around £442,000.

University: £66,558

University fees are usually £9,250 per year, meaning a typical three-year course adds up to £27,750. On top of this, students moving away from home will have other costs you may want to help with. According to Save the Student, average living costs are around £12,936 each year or £38,808 over a three-year course.

House deposit: £28,710

Traditionally, first-time buyers put down a deposit of 10%. With average houses prices at £287,105 in December 2023 according to the Halifax House Price Index, the average deposit needed will be £28,710. Of course, regional variances may mean average house prices are higher or you may want to help your child put down a larger deposit.

> Don't forget about inflation. While these figures give you an idea of the cost now, inflation means these costs are likely to rise in the future, so you need to consider this too.

2 **ESSENTIAL** THINGS YOU NEED TO MAKE PART OF YOUR FINANCIAL PLAN IF YOU'RE A PARENT

If you're a parent, creating long-term financial security for your children is important. There are two crucial steps to take to ensure security even if the unexpected happens.

1. Write or review your will

According to Will Aid, 54% of parents with children under the age of 18 haven't named a guardian for their children.

A will is important for everyone to have in place but, as a parent, it's even more essential.

Writing a will is the only way to ensure your assets are distributed how you wish. Without a will, your estate will be distributed according to intestacy rules, which may be very different from your wishes. This is especially true if you've remarried, have children from previous relationships, or would like stepchildren to benefit from your estate.

You should also keep in mind that your partner does not have an automatic right to inherit if you are not married or in a civil partnership.

Having a will in place means you can ensure your loved ones will receive the assets you want them to.

For parents, a will also serves another purpose. A will is where you can appoint a guardian to look after your children if something were to happen to you. Thinking about your death can be difficult but, by naming a guardian in your will, you can ensure that your children are cared for by someone you trust. Despite this, Will Aid research shows more than half of parents haven't stated what would happen to dependent children if they passes away.

What happens if you do not name a guardian for your children?

If a guardian has not been appointed, and no other parent with parental responsibility exists, then a court will decide who will look after your children. This may not be the person you would prefer and could even be someone your child does not know well. Without clear instructions, the choice of guardian can also lead to disputes and conflicts.

Writing a will is something many people are guilty of putting off, but it's a simple step to take. It is possible to take a DIY approach to writing your will. However, it is often advisable that you seek professional legal advice to ensure it accurately reflects your wishes.

Remember: Your wishes and circumstances are likely to change over time. You should review your will every five years and after big life events, like marriage, divorce, or welcoming a child to ensure it continues to reflect your goals.

Don't forget about your pension

A pension does not form part of your estate when you die, so it's typically not covered in your will. However, it could be one of your largest assets. To ensure it is passed on to your beneficiaries, you need to fill out an "expression of wishes" with your pension scheme.

2. Assess your financial resilience

1 in 7 people in the UK have no savings, according to money.co.uk statistics.

If your income were to unexpectedly stop, how long could you cover your expenses? Building financial resilience is important to providing short- and long-term financial security for your family. Improving financial resilience can maintain your lifestyle and ensure goals remain on track even if the unexpected happens.

However, research suggests that many families are worryingly exposed to financial shocks. It's estimated that a third of people in the UK have either no savings, or less than £1,000 in a savings account, according to money.co.uk figures.

Understanding how long you could continue to pay for the essentials, like your mortgage and utility bills, is essential for measuring your financial resilience.

It's a common misconception that insurance policies won't pay out. However, almost all claims are paid in full. In 2022, **97.5%** of claims were paid.

Source: The Association of British Insurers

As a general rule of thumb, it's a good idea to have three to six months' worth of outgoings as an emergency fund. This can provide you and your family with security in the short term.

For medium- and long-term resilience, financial protection products can help. There are three main types of financial protection products to consider:

1. Income protection, which would provide a regular income, usually a portion of your salary, if you're unable to work due to an accident or illness.
2. Critical illness cover, which pays out a lump sum on the diagnosis of certain illnesses named within the policy.
3. Life insurance, which will pay a lump sum to your loved ones if you pass away during the term.

Choosing appropriate financial protection can deliver peace of mind. A life insurance policy that would ensure your family can pay off the mortgage, for example, can mean your children are secure even if the worst happens. Putting the right protection in place can improve your financial resilience.

Why financial protection is still important if you're not the main income producer

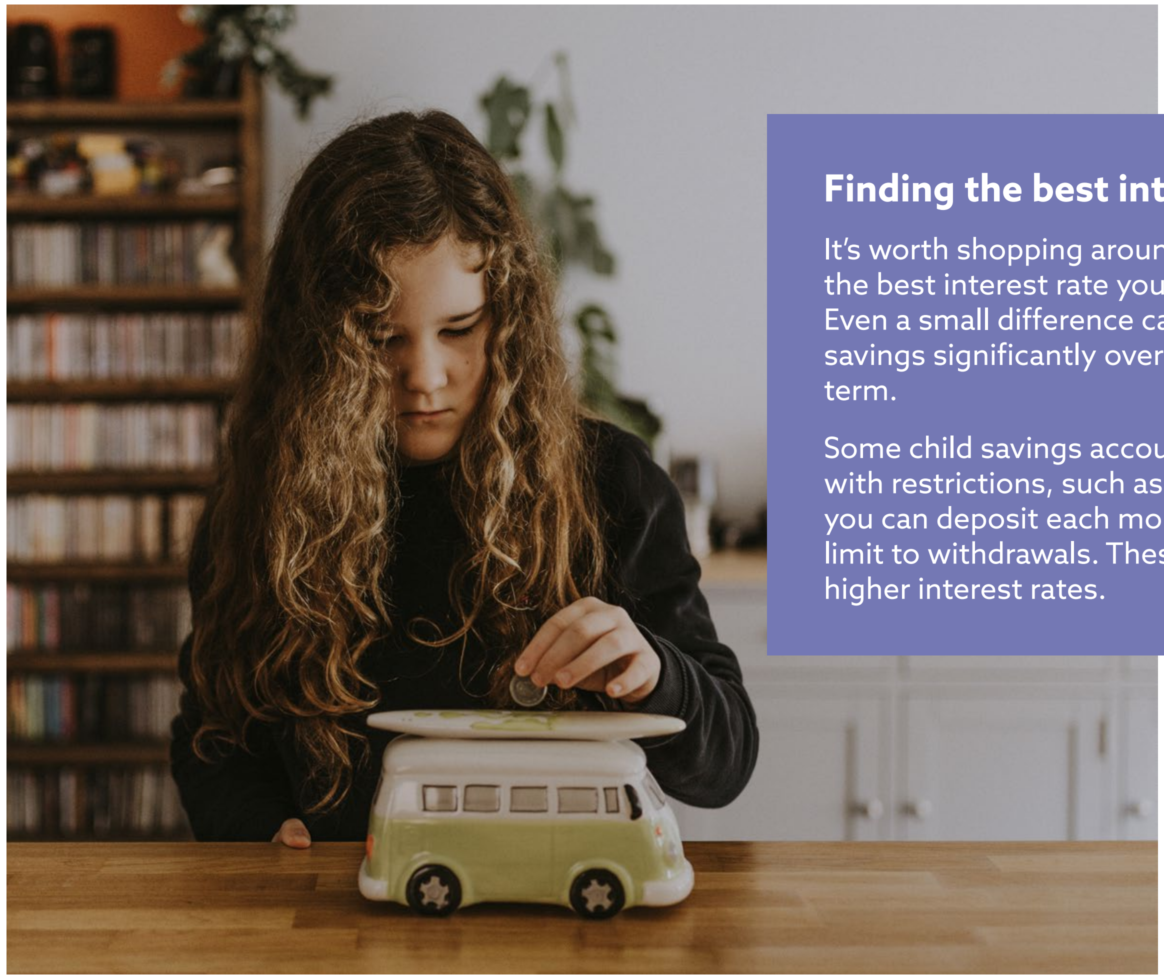
While taking out financial protection to cover the income of the main income producer in a family makes sense, it can also be worthwhile insuring other people too. For instance, a stay-at-home parent may provide valuable childcare. If they became ill, it could have a huge lifestyle and financial impact on the family. Thinking about what would happen if you or your partner became too ill to carry out your usual routine can help you assess what financial protection is right for your family.

SAVING FOR YOUR CHILD:
IT'S NEVER TOO EARLY TO START

While it's never too late to start saving, it's never too early either. Putting money away on your child's behalf can have a huge impact on the opportunities afforded to them and their future financial security. Even small, regular contributions can add up over their childhood.

Just as important as putting money aside for a child is choosing the right savings products for your goal. A savings account that your child can dip into to pay for treats will be very different to the one you're paying into to help them meet the cost of university.

If you're starting to think about saving for your child, here are three options you may want to consider.



Finding the best interest rate

It's worth shopping around to find the best interest rate you can access. Even a small difference can boost the savings significantly over the long term.

Some child savings accounts come with restrictions, such as the amount you can deposit each month or a limit to withdrawals. These may offer higher interest rates.

General savings account

There are plenty of children's general savings accounts to choose from. Like your own savings account, they will hold the money in cash and will pay interest on the deposits you make.

Interest rates have been low for over a decade and the interest on a child's account is lower than you could expect when compared to the past. However, a child's account will generally have a more competitive interest rate than an adult counterpart.

Inflation could mean the savings lose value in real terms. As the cost of living rises, the money you have in a savings account reduces in value unless the interest rate on offer keeps pace with inflation. Over the long term, this can have a real impact on your child's savings.

The good thing about a child's savings account is they usually offer you flexibility, so you can withdraw money as and when you want. This makes it a good option if you want to save for things like school trips or allow your child to spend some of the savings. They can be a good way to teach children about saving up for the things they want.

Pros:

- They provide flexibility and you can often withdraw money as and when you want to.
- They can be used as a way to teach your child about saving and managing their own money.

Cons:

- Interest rates are low, and you may not get much back for your money.

Junior ISA

A Junior ISA (JISA) operates in a similar way to an adult ISA. It provides a tax-efficient way to save or invest for your child. You won't need to pay tax on either the interest or returns earned.

In the 2023/24 tax year you can place up to £9,000 into a JISA on your child's behalf. Maximise the annual allowance and your child will reach adulthood with £162,000 before interest or investment returns are included (assuming this subscription limit remains the same). While a parent or guardian must open a JISA, other people can make contributions.

A JISA is a good option if you're saving to build up a nest egg for your child. The savings could be used to help achieve life milestones, like driving lessons, buying a home, or going to university.

Keep in mind though, that the money will be locked away. When your child turns 16, they will be able to take control of the account. This means they can switch provider to access a better interest rate or choose how the money is invested.

However, the money will not be accessible until they are 18. At this point, they can withdraw the money, transfer it, or leave it where it is, and the account will automatically become an adult ISA.

JISAs are a popular way to save for a child. In 2020/21, around 1.2 million JISA accounts were subscribed to, according to HMRC figures. £1.5 billion is held in JISAs, with around 42% being placed in a Cash JISA.

Pros:

- Savings or investments held in a JISA are tax-efficient.
- You have the choice between saving or investing money held in a JISA.

Cons:

- The money is locked away until the child is 18.
- Once your child turns 18, they will have control of the money.

The JISA dilemma: Should you save or invest?

One of the good things about a JISA is that it can allow you to save or invest on behalf of your child, but which option should you choose?

Both options have advantages and drawbacks. You need to consider what your goal is and how much risk you're comfortable taking.

With a Cash JISA, the money is "safe". The deposits will earn interest but, like a savings account, you also need to think about how the impact of inflation could reduce the value of the savings in real terms.

A Stocks and Shares JISA, on the other hand, allows you to invest the deposits. This provides you with an opportunity to grow the savings, but you'll also be taking some risk as investment values can fall as well as rise.

When deciding between the two options, you should think about how long you'll be saving or investing for, what your goals are, and what level of risk you're willing to take. If you're not sure which option makes sense for you, please contact us.

You don't have to choose between saving and investing. You can open both a Cash JISA and Stocks and Shares JISA on behalf of your child. However, you can only deposit a maximum of £9,000 across all JISAs in the 2021/22 tax year.

Does your child have a Child Trust Fund?

Child Trust Funds are now defunct, but your child or grandchild may still have one.

If your child was born between 1 September 2002 and 2 January 2011, the government will have opened a Child Trust Fund account in their name automatically. Accounts were opened with an initial contribution from the government and may have received a further boost too. So, even if you've not deposited money in a Child Trust Fund, it's worth tracking it down.

Child Trust Funds are accessible once the child turns 18. If your child is still under 18, the money within a Child Trust Fund can be transferred to a JISA or you can continue contributing to it up to a maximum £9,000 (in the 2023/24 tax year).

Around 6.3 million Child Trust Funds were set up and it's thought millions could be sitting in "lost" accounts. If you've lost touch with a Child Trust Fund, you can fill in an online form to ask HMRC where the account was originally opened.

Pension

When thinking about saving for a child, a pension may be the last thing on your mind, but there are benefits to opening a pension for children.

You can open a regular pension on behalf of a child. You can usually deposit up to £2,880 in a pension for a child for the 2023/24 tax year. This deposit will benefit from tax relief, boosting the annual sum to £3,600. As with your own pension, this money will usually be invested. This provides a chance to benefit further from investment growth over the long term, but all investments come with some level of risk.

As the money will remain invested over the long term, returns are reinvested. This means your deposits now benefit from the compounding effect. Over decades, this can have a significant impact on the pension and help it grow faster.

One thing to keep in mind is that the money will be tied up until the child reaches pension age. It's a step that can provide a foundation for them to build on in their working life and put them on track to a more comfortable retirement, but it is inflexible.

Pros:

- Your contributions will benefit from tax relief, providing an instant boost.
- The money will be invested over the long term, providing more opportunities to benefit from investment returns and the compounding effect.
- It can provide a foundation for creating financial stability in your child's later years.

Cons:

- The money won't be accessible until the child reaches pension age. Currently, this is 55, rising to 57 in 2028 and is likely to rise further.
- Pension rules and regulations may change in the future. This could affect when and how your child can access their pension.

If you're starting to think about saving for your child and aren't sure how to make the most of your money, please contact us.

SHOULD YOU SET UP A TRUST FOR YOUR CHILD?

You may have heard of families setting up trusts for children in the past and it may be right for you too.

While "trust fund babies" have some negative connotations today, there are plenty of valuable reasons for creating a trust in the name of a child and they aren't solely the preserve of the very wealthy. It can provide security and ensure your wishes are followed.

What is a trust?

A trust is essentially a legal arrangement where you give someone control of assets that they then look after on the behalf of someone else. You can hold a range of assets in a trust, from cash to property.

The different types of trust

Several types of trust can be used to pass on wealth to your child or another beneficiary.

The simplest kind of trust is known as a "bare trust". This type can be a useful way for families to pass on wealth to children once they reach adulthood. It would give everything held in the trust to the beneficiary once they are over 18.

However, depending on your goals, other types of trust may be useful, including:

Interest in possession trust: This type of trust can deliver an income to the beneficiary, but they don't have the right to the assets. For example, they may receive an income from investments, but they cannot sell the investments.

Discretionary trust: This type of trust gives discretion to the trustees, allowing them to decide how and when they distribute the assets.

When you set up a trust you can set out how it will be managed and the rules. For instance, you may have assets you want to pass on to your child but worry they won't make responsible choices when they're a young adult, affecting their long-term finances. In this case, you can create a trust that would deliver an income until they reach 25, after which they can take control of the assets.

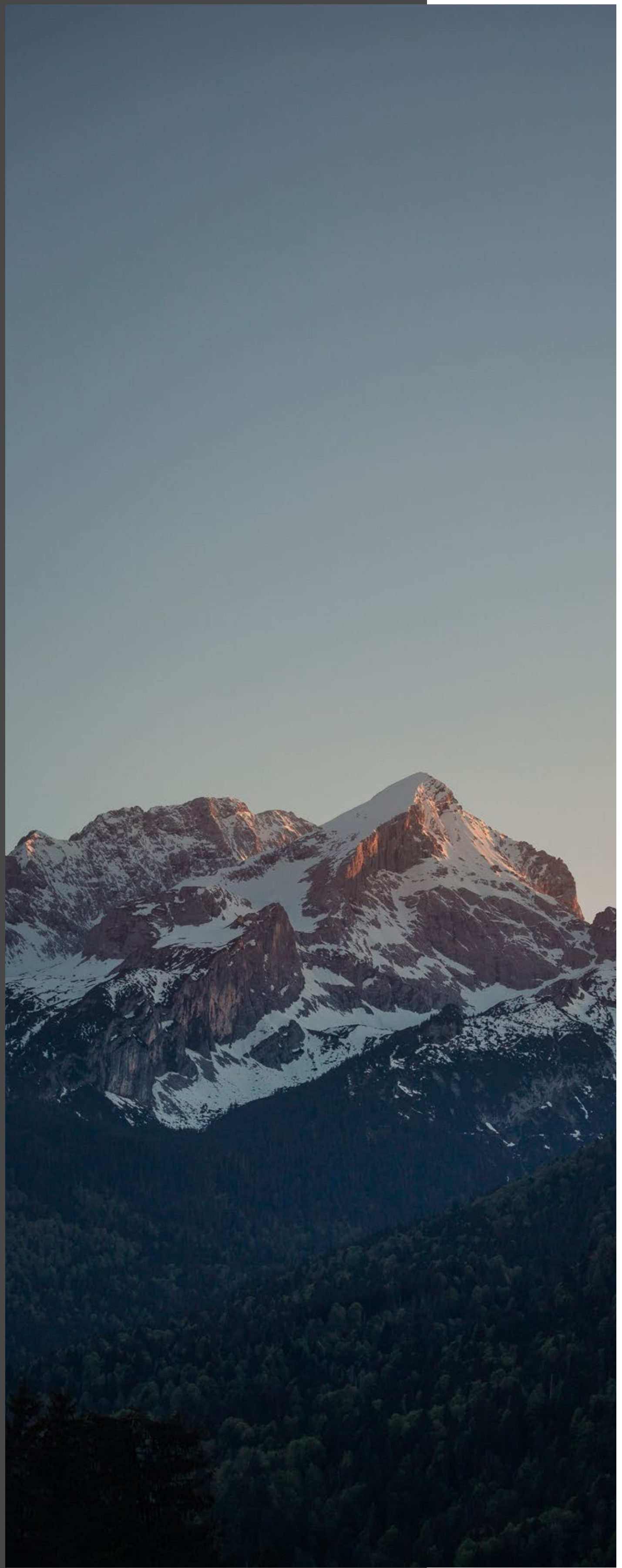
Keep in that mind that setting up a trust can be complex and, in many cases, irreversible. If you're thinking about setting up a trust for your child, you should take both financial and legal advice.

Trust lingo

Settlor: The person that sets up the trust.

Trustee: The person that is responsible for managing the trust on behalf of the person who will benefit from it.

Beneficiary: The person(s) who the trust is set up for.



When is a trust useful?

There are many reasons you may be thinking about creating a trust. Among the reasons a trust can be useful for families when creating a financial plan and setting out your goals are:

Holding assets for children

If a child has assets now, for example an inheritance they received from grandparents, a trust can hold it for them until they're old enough to control their finances and assets themselves.

Retaining some control of the assets

In some cases, you may want to retain some control over how the assets are used. A trust means you can set out the rules you want to be followed.

Providing security should you pass away

If the worst should happen, a trust set up for your children can help ensure they're financially secure. Assets in a trust could be used to pay for things like school fees, for instance, and provide an inheritance when they're old enough.

Keeping wealth in your family

A trust can be used to create certainty for the long term. A trust can create a legacy that provides an income for future children, grandchildren, and further generations.

Reducing Inheritance Tax

If the entire value of your estate exceeds £325,000 (or £500,000 if you plan to pass on your home to children or grandchildren), you may need to consider if Inheritance Tax could affect what you leave behind for loved ones. As a trust can remove assets from your estate, meaning they are not included in Inheritance Tax calculations, they can reduce an Inheritance Tax bill.

3 THINGS TO DO IF YOU SET UP A TRUST FOR YOUR CHILDREN

1. **Think carefully about who you name as trustee**

   One of the most important decisions you need to make is who the trustee will be. The trustee will have a legal responsibility to act in the best interest of the beneficiary and will manage the trust on their behalf. The trustee doesn't have to be the same person that you have named as a guardian for your children. You may name your sibling as a guardian, but are they good with money? As well as a family member or friend, you can also choose a professional trustee to fill this role.

2. **Decide when you want your child to benefit**

   A basic trust would give your child full control of the trust when they reach 18. However, some young adults can be reckless with money, which could mean the nest egg you've worked hard to build up doesn't provide the security you'd hoped. You should spend some time thinking about the restrictions you want to place on the trust.

3. **Review the trust regularly**

   As with many financial decisions, it's important you review the trust at regular intervals. Keeping an eye on the performance can provide you with peace of mind and there may be times that you want to make changes, such as who the designated trustee is.

WHY IT MAY BE TIME TO START THINKING ABOUT GIFTING DURING YOUR LIFETIME

The 7-year rule

If you're gifting to reduce Inheritance Tax, keep in mind that some gifts are considered part of your estate for up to seven years.

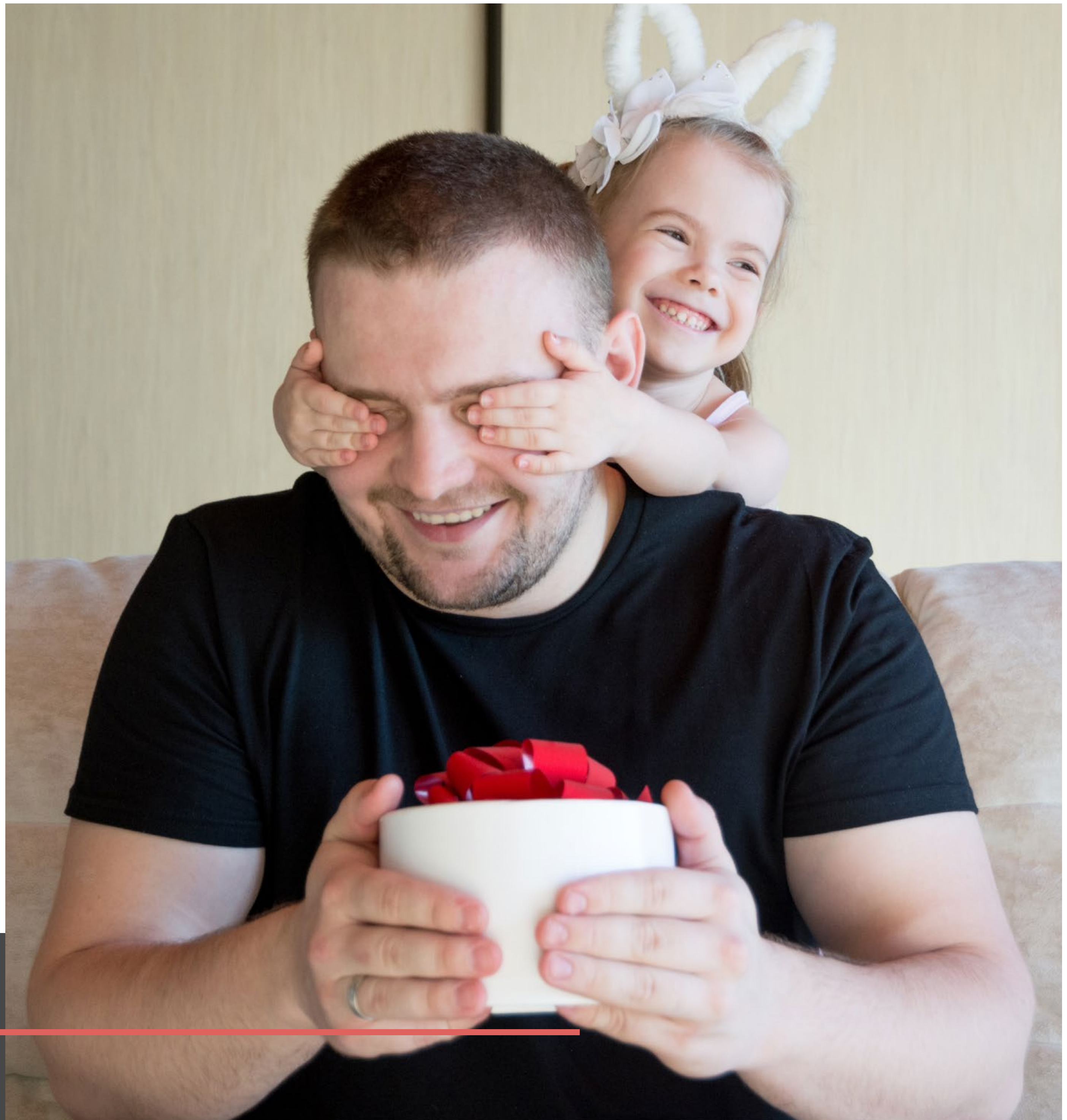
However, there are some gifts that are immediately exempt, including:

- Up to £3,000 per tax year
- Gifts of up to £250 per person
- Wedding gifts up to £1,000 per person. This rises to £2,500 for grandchildren and £5,000 for children
- Gifts that are made from your income
- Gifts that help with another person's living costs, such as a child or a vulnerable adult.

Traditionally, families would pass on wealth to the next generation when they died. However, it's becoming more common to pass on wealth while still living. This has several benefits including:

- Being able to provide financial support when loved ones need it most. For instance, helping a child or grandchild to buy a home can do more to create long-term financial security than leaving a lump sum when they're ready to retire.
- You get to see the benefits your gift has on your loved ones and see them enjoy it.
- In some cases, it can help to reduce a potential Inheritance Tax bill.

With this in mind, it's not surprising that more parents and grandparents are passing on wealth during their lifetime. Lending a helping hand to get on the property ladder is the perfect example of this.



Younger generations are struggling to buy their first home as house prices soar and wage growth stagnates. A lump sum to act as a deposit can create short- and long-term financial security, as well as giving them a space of their own. In the short term, some new buyers find their mortgage repayments are lower than rent, boosting security now. In the long term, paying off a mortgage means they'll be more financially secure later in life and may have more choices as a result.

A well-timed financial gift could be a greater legacy than an inheritance.

Of course, there are drawbacks to gifting during your lifetime too, including:

- Gifting during your life will reduce the inheritance you leave behind. The legacy you leave may be a priority for you, or loved ones may be relying on an inheritance for future plans.
- It can also be difficult to share gifts "fairly" or in a way that suits how you want your wealth distributed. For instance, say you have two children and one child is ready to purchase a house now. Do you provide your other child with the same amount now, or wait until a later date? You may also need to update your will to reflect how gifting changes your wishes.

Gifting rather than leaving an inheritance isn't the right decision for every family. But it's worth thinking about the benefits and whether it suits your family goals.

WOULD GIFTING AFFECT YOUR LONG-TERM SECURITY?

It's not just what is right for your loved ones that you need to consider when deciding whether gifting during your lifetime is right for you. Your long-term financial security is also crucial.

Have you considered how long your assets will need to last for? Life expectancy is rising, and adults today have a good chance of celebrating their 100th birthday. Underestimating how long your wealth needs to last could mean you face financial insecurity later in life.

You also need to think about the unexpected things that could happen. Would you still be able to afford care if you needed it after gifting? Planning for these "what if?" scenarios can give you confidence in the decisions you make.

If you want to gift during your lifetime, you can talk to us to understand the short-, medium- and long-term implications it could have.

020 4526 4444

info@aretianwealth.co.uk

PREPARING AN INHERITANCE

What do you hope to leave behind for loved ones? For some people, the inheritance they leave to children, grandchildren, and other loved ones is a priority. If you want to ensure you leave a nest egg behind, planning is important.

While it's never easy to think about passing away and leaving loved ones behind, setting out your plan is crucial, and it's never too soon to think about what you want. Remember, your wishes now aren't set in stone. They may change over time so it's important to frequently review how you'd like to pass on your estate.

If you'd like to start preparing an inheritance for loved ones, these three questions can help create the foundations of your estate plan.

1. ***What is the size of your estate, and how will this change over time?***

   The first step to preparing an inheritance is to understand what your estate is and its value. Your estate is essentially all of your assets – this may include savings, property, and material assets. With a clear picture of what makes up your estate, you're in a better position to make decisions about it.

   However, you also need to consider how your estate will change over time. For instance, your pension may be one of your largest assets now but, once you're in retirement, you're likely to start using it to create an income. As a result, your estate and its value will change over time.

   It can be difficult to estimate what your estate will look like in the future. There are a lot of factors that you will need to consider, like investment returns, income taken from your pension, and rising property values. A financial planner can help you understand how assets will change over the long term.

2. *How do you want to distribute your estate?*

With an outline of your estate, you can start thinking about how you'd want to distribute your assets. There are many different ways that your assets can be distributed, for example:

- A specific bequest means you leave a particular item or amount of money to a beneficiary.
- A residuary bequest gifts a portion of your estate to a beneficiary. For example, you may want each of your children to receive 30% of your estate.
- A conditional bequest means you can set out certain criteria that need to be met before a beneficiary can inherit.

As well as loved ones, you may also want to leave a portion of your estate to a charity or other organisations that are important to you.

3. *Do you need to consider Inheritance Tax?*

Before you jump into making a will based on how you want your estate distributed, you should consider if your estate could be liable for Inheritance Tax (IHT).

There are two thresholds you need to be aware of to understand if you could be affected by IHT:

1. The nil-rate band: This is the amount you can pass on without incurring any IHT. For 2023/24, the nil-rate band is £325,000.
2. The residence nil-rate band: If you're leaving your main home to children or grandchildren, you can make use of the additional residence nil-rate band allowance. For 2023/24, it is £175,000.

By making full use of both these allowances, you can effectively pass on £500,000 before any IHT is due. If you're married or in a civil partnership, you can pass on any unused allowance to your partner. In effect, this means couples can jointly pass on £1 million before IHT is due.

Inheritance Tax can often be reduced, but you need to be proactive. The standard IHT rate is 40% and could significantly reduce inheritances if you don't act.

Once you understand your estate and how you want to distribute assets, it's important to ensure that this is backed up by your will.

5 THINGS YOU CAN DO TO REDUCE AN INHERITANCE TAX BILL

Use a trust to hold some assets

In some cases, the assets held in a trust are not considered part of your estate for IHT purposes. So, moving some to a trust can reduce the bill. However, this isn't always the case.

Pass on your wealth now

Giving your assets to a loved one now could help reduce an IHT bill. However, be aware that some gifts will be considered part of your estate for up to seven years. To discuss which gifts are immediately outside of your estate, please contact us.

Leave 10% of your estate to charity

Leaving at least 10% of your estate to charity will reduce the IHT rate from 40% to 36%. In some cases, this would mean your loved ones inherit more while supporting a good cause.

Keep the value of your estate below the nil-rate thresholds

Spending more of your wealth during your lifetime to keep the value of your assets below the nil-rate bands is an option worth considering.

Take out a life insurance policy

This won't reduce an IHT bill, but the payout can be used to pay it, ensuring your estate remains intact and distributed according to your wishes. The life insurance policy must be placed in a trust, otherwise, it could increase the amount of IHT due.

This isn't an exhaustive list of the things you can do to reduce Inheritance Tax, and there may be other steps that suit you.

PART TWO:

PASSING ON YOUR FINANCIAL KNOWLEDGE AND EXPERIENCE

Having a financial safety net and writing a will are important steps for ensuring the financial security of your family. However, just as important is providing children with the knowledge they need to make savvy financial decisions when they're older.

Having an inheritance can give children a financial head start, but it can be squandered if they don't have the right foundations to build on. Passing on your financial knowledge and tips are crucial for helping the next generation make the right financial decisions for them.

In this section of our guide, we explain why it's so important and some of the things you can do to help improve their financial education.

FINANCIAL EDUCATION IN SCHOOLS IS FALLING SHORT

Financial education has been part of the national curriculum for seven years, but pupils say it's not going far enough. The good news is that when asked, teenagers are keen to learn more about finances, and recognise why it's so important.

While the curriculum varies between England, Scotland, Wales, and Northern Ireland, in most cases, financial education isn't taught as a separate subject, but rather as part of maths, numeracy, or citizenship. Rarely do pupils benefit from financial education throughout school. In England, for example, it is taught in secondary schools only, while in Scotland it's taught to students aged 3 to 14 years.

Without financial education being a core part of their time in school, many students are already worrying about their financial future.

A 2022 study from the London Institute of Banking & Finance found 68% of teenagers worry about money. This figure increases to 85% among 17- and 18-year-olds.

The study also found:

- 82% of students want to learn more about money and finances in schools
- 68% said they studied financial education for less than one hour a week.

The findings highlight that many pupils are missing out on crucial information that could affect their decisions. For example, 72% said they hadn't received any information about taxes. Almost half (47%) said they did not know how student loans work. This is despite just 14% of students saying they don't intend to take out a student loan.

While there have been significant improvements in boosting financial education in schools, it is falling short. It's not surprising that almost 7 in 10 students say they get most of their financial understanding from their parents and wider family.

Supplementing the national curriculum with financial education at home can help your children feel more comfortable about making financial decisions.

WHY MONEY SHOULD BECOME A CONVERSATION IN YOUR HOME

Money is often something of a taboo subject in the UK. While it plays a crucial role in our lives, it's still not something we talk about often.

By the age of seven, children's attitudes to money are already developing. So, while it can be difficult, having conversations about money and financial decisions at home is important. It can help your child feel more comfortable making financial decisions in the future and can help foster a relationship where they feel empowered to ask questions and come to you for advice.

There are many ways to make money a part of conversations at home. Over the next few pages, read about some of the things you can do to encourage financial education and what knowledge is appropriate for each age.

HOW TO LAY FINANCIAL FOUNDATIONS WITH PRIMARY SCHOOL CHILDREN

Primary school may seem early to start thinking about money. However, your relationship and views on money begin to formulate at a young age. Laying the foundations of personal finance while in primary school is important.

While in primary school, building basic financial skills and confidence should be the focus. This may include areas like:

- What is money and what is it used for?
- The value of different coins and notes
- How to earn money
- Why it's important to keep money safe
- Why and how to save money.

Games and roleplay are an ideal way to make learning about money fun at this age. Setting up a shop in your home where they can play as a shop owner or customer is a simple way to introduce the concept of money and the value of items, and start a conversation.

Taking these ideas into the real world on a shopping trip can be useful too. From letting them pick out the items on your shopping list to asking which items are better value, it can help young children understand the role money plays.

As they get older, you can also begin to build on these basics and to explore other financial topics like:

- The difference between need and want
- How to pay using debit cards and online payments
- Lending and borrowing
- How to compare prices and decide what is good value.

As they get older, pocket money can help instil the basics of spending and saving. Encouraging children to think about what they'd like to spend money on and how they'll save their pocket money to reach their goals is a great place to start. Pocket money doesn't have to be a significant amount to help foster a positive relationship with money.

HOW MUCH DOES THAT COST?

Talking about how much things cost and how this relates to the money they have is important for children. The Halifax Pocket Money Survey found that, when asked to guess how much items or experiences cost, the answers children give can be very different from reality.

When asked how much university would cost, children aged between 8 and 15 estimate £9,000, far below the £28,000 needed for a three-year course. The 8% of kids that believe university would cost £100 or less could be in for a shock.

House prices were also underestimated. On average, children think you'll need £150,000 to buy a new home – a figure around 42% lower than the national average. An optimistic 19% believe they can secure a home for £20,000 or less.

3 MONEY ACTIVITIES TO TRY WITH YOUR PRIMARY SCHOOL-AGED CHILD

1. The desert island game

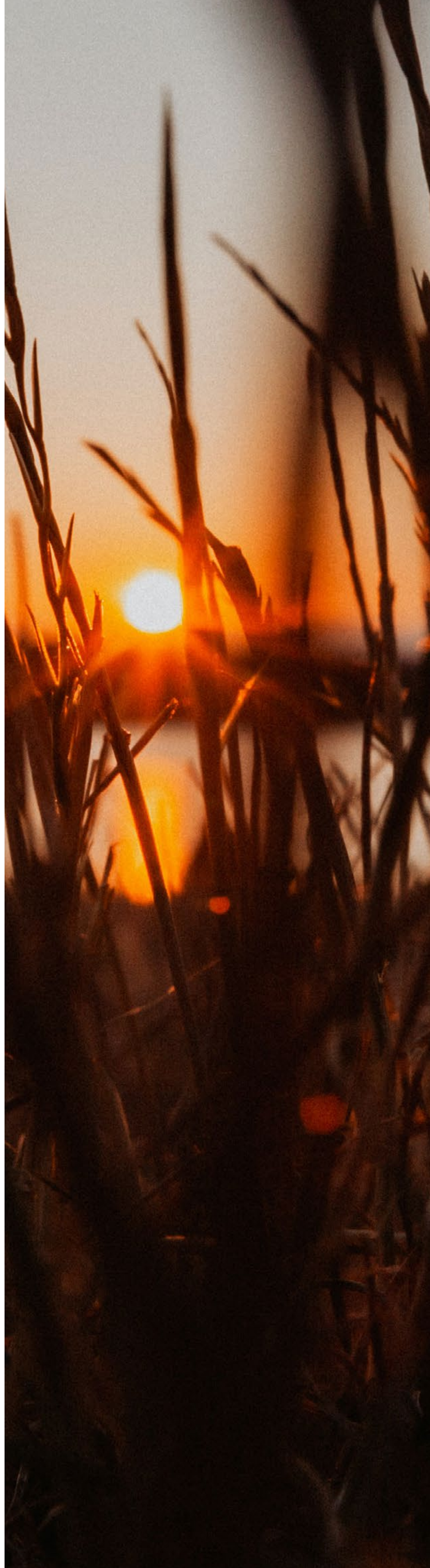
This is a popular game among teachers and can be a great way to teach young children the difference between needs and wants. Create a scenario where they'll be stranded on a desert island, and they have to choose which six items they'll take with them out of a larger pile. Their favourite game console might seem attractive at first but chatting about what they'd need can help them understand the options.

2. Setting up shop

We've already mentioned how playing shop can help, but adding some challenges as part of the game can broaden a child's understanding of money. Can they set accurate prices for the items they're selling to you? Or if they're the shopper, can they buy everything they need and stay within budget?

3. Coin toss

Coin toss is a simple game that can help children become familiar with coins, their value, and adding up. In the game, children need to take turns to toss mixed coins into a bowl. Those that stay in the bowl are added to their collection, while those that miss go to the other players. Once you've finished, add up the coin values to see who wins.



KEEPING TEENAGERS ENGAGED:

7 TIPS FOR CONTINUING FINANCIAL EDUCATION IN SECONDARY SCHOOL

As children get older, understanding the value of money becomes even more important. As teenagers, they may have expensive hobbies or want to start going out with friends more. The good news is that research shows teenagers are keen to learn and parents can foster this interest to support ongoing financial education.

If you have a teenager, these seven tips can help support the lesson they're learning about money in day-to-day life.

1. *Give them some financial responsibility*

Teenagers are often keen to take on responsibility and make decisions for themselves. Having control over some money regularly can help them get to grips with everyday money lessons and planning ahead.

Giving pocket money or an allowance can be a useful way of doing this. As well as spending on discretionary items, requiring them to pay for other things like a sports club they're part of can get them into the habit of thinking about what their money is needed for before simply spending on things they want.

You may also want to think about whether they need to earn the money by doing chores at home or, as they get older, working part-time.

2. *Find an interactive budgeting app*

Budgeting is an essential money skill, but it can be dull. Luckily though there's a whole host of apps that can make budgeting simple and interactive. Apps can allow your teenager to input their essential spending and goals. It can make it clear how decisions now can have an impact. Would spending their allowance on a new game they want mean they miss their saving goal to go on a school trip?

Apps are also an excellent way to see the money grow when they decide to save, motivating them to make better financial decisions.

3. *Help them set out goals*

Some teenagers focus on the present without planning ahead. Setting out goals can provide the motivation needed to save. Spending some time discussing what they want to save up for or their plans for the future can be an important first step when thinking long term.

It may be that they want to save for new clothes, a school trip with friends, or are starting to think about university. Setting out how much they need to save and breaking it down into smaller goals can help keep them on track.

4. *Get them involved in family finances*

Even when managing their own money, there can be some disconnect over how much other things cost. Do they know how much your mortgage and utility bills are? Or how much a family holiday costs? Involving teenagers in family finances can give them a better perspective on why managing money is so important.

It's a chance to give them some more responsibility and experience in handling household finances as they get older too.

5. *Make it simple*

Finances are full of jargon that can be confusing to adults and teens alike. Cut out terms and phrases that aren't clear or spend some time explaining them.

When giving them advice, make it as practical and as relevant to them as possible. Rather than simply saying they need to save more, demonstrate how saving more now could help them reach goals and how the interest they earn will boost savings further.

6. *Show them the steps you're taking*

Leading by example is important. We've mentioned above getting teenagers involved in day-to-day household finances, but it's also important to look at the bigger picture. Discussing what you have saved or invested, and why, can help give them a long-term view.

If you're saving on their behalf, it's also worth talking about what this kind of account is and how you'd like it to be used. If you're saving in a JISA, for example, they'll have access to the money when they turn 18. Having a conversation about what it's intended for can reduce the chance of them recklessly spending it.

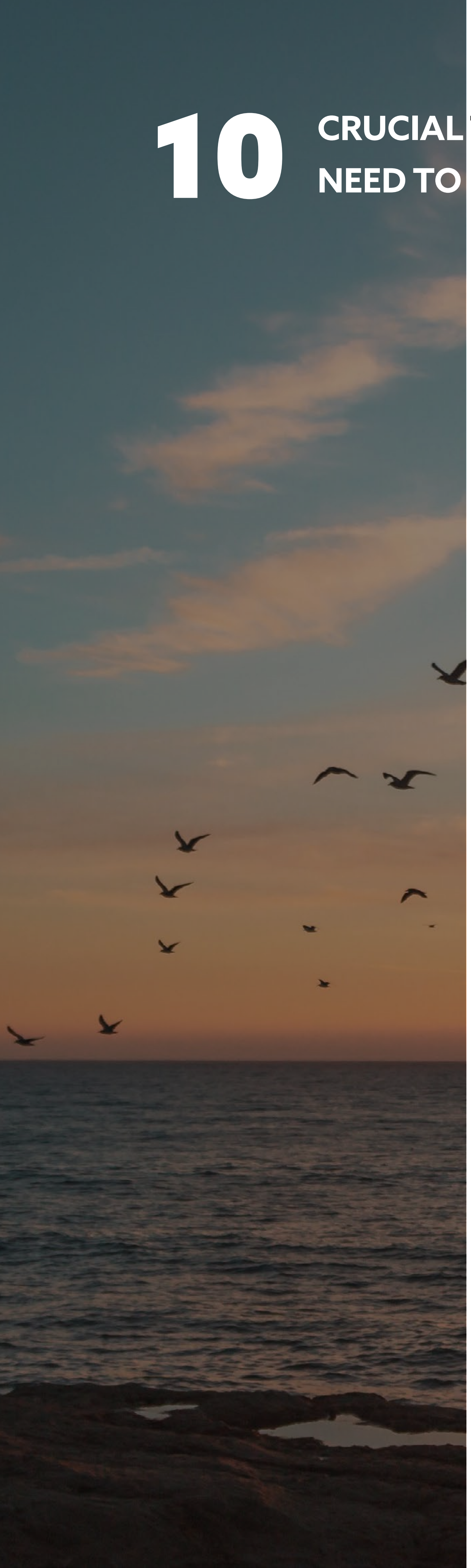
7. *Let them make the occasional mistake*

It can be frustrating to watch your child make financial mistakes. Perhaps they should have saved a portion of their allowance so they could go out with friends later in the month, but they've already spent it all. However, sometimes you can learn more from making a mistake and they present valuable teaching points.

Marketing and why you want something

Marketing can have a huge impact on what children want and ask for. As they get older, it becomes even more important to understand this.

As teenagers they may be using social media, which can give the impression that there are some things everyone has or does that could influence how they spend or view money. It's important to look at the concept of marketing and talk about why it's important to think about why you really want something and how it would benefit you.



10 CRUCIAL THINGS YOUNG ADULTS NEED TO KNOW FOR FINANCIAL SUCCESS

As your child become a young adult, they'll have to make a lot of financial decisions. They may start being offered things like credit cards and loans that can be incredibly tempting. Or they may be thinking about moving out and starting their career.

How they handle money as they first become financially independent could have a long-term impact on their prospects. Here are 10 things young adults need to know to take control of their finances and make responsible decisions.

1. *How to set up a budget*

Budgeting is an essential skill and forms the bedrock of managing money responsibly. Being able to set out essential costs in relation to income can help young adults have a better steer on their finances and mean they're able to start thinking about medium- and long-term goals, as well as enjoying their disposable income.

2. *What their payslip and deductions mean*

At first glance, payslips can be confusing. Ensuring they know what deductions are and how this affects their take-home pay can help them budget better. Deductions may include Income Tax, National Insurance, pension contributions, and student loan repayments. As well as understanding how it affects their take-home pay, it can help them understand if they're paying the correct amount of tax.

It's also worth talking about salary sacrifice options they may have now or in the future, and how it can reduce their tax bill.

3. *The day-to-day costs of living independently*

When young adults first move out, understanding what they need to pay for and how much this adds up to can be confusing. They may plan for utility bills, but have they considered home or contents insurance? With so much to think about, it can be easy to overlook some essentials that need to be included in a budget. Going through your own expenses with grown children can help them create a plan.

4. *How student loans work*

Every year thousands of students go to university and, for many, it will mean taking out a student loan to pay for course fees and living costs. There are two important things to understand here.

The first is when a student loan is paid, how much it is, and how this can support their lifestyle while they're studying.

The second is how it's paid back. Rather than acting as a traditional loan, a student loan is paid back as a percentage of earnings when income exceeds a certain threshold. The threshold and percentage vary depending on when students go to university so it's important to look at this and consider how it could affect future income.

5. *The positive and negative effects of compounding*

Interest can have a huge impact on finances, especially when it compounds. In fact, Einstein reportedly referred to the compounding effect as the eighth wonder of the world.

When saving or investing, it can be positive. It can help money grow faster as interest or investment returns go on to generate interest or returns of their own. Over the long term, compounding can have a huge impact on wealth.

But when borrowing, the compounding effect can be negative. As interest is added to the full amount owed, you essentially pay interest on interest if repayments aren't keeping up. Over time, it can lead to exponential growth and borrowing spiralling out of control.

6. *Why it pays to start a pension early*

In most cases, workers over 22 are now automatically enrolled into a pension, but they can opt-out. As a young worker, saving for retirement can seem like something they don't need to worry about yet. However, explaining how tax relief, employer contributions, and investment returns boost their own contributions can help young adults see why paying into a pension makes sense.

It's never too soon to pay into a pension and even small, regular contributions can add up to a sizeable sum over a career.

7. What a credit score is and how it affects borrowing

A credit score can seem like a boring subject, but it can affect long-term plans. It's important young adults understand how the decisions they make now could affect them in the years to come. Borrowing to buy the latest gadget now and missing a repayment could make it more difficult for them to secure a mortgage in a few years, for instance.

It's free to see your own credit report. Getting young adults into the habit of regularly reviewing it and taking steps to improve their score can mean they have more options for borrowing in the future.

8. What's considered when applying for a mortgage

Many people aspire to own their own home. For most, that will mean taking out a mortgage. Understanding how a lender decides whether to approve your mortgage application is an important step for preparing for homeownership.

Explaining the role a credit report plays in showing you're a responsible borrower, and how much you can borrow in relation to your income, can help them improve their application.

As well as how to secure a mortgage, discussing things like deposits, how interest can be calculated, what the term of a mortgage means, and the size of repayments is also important.

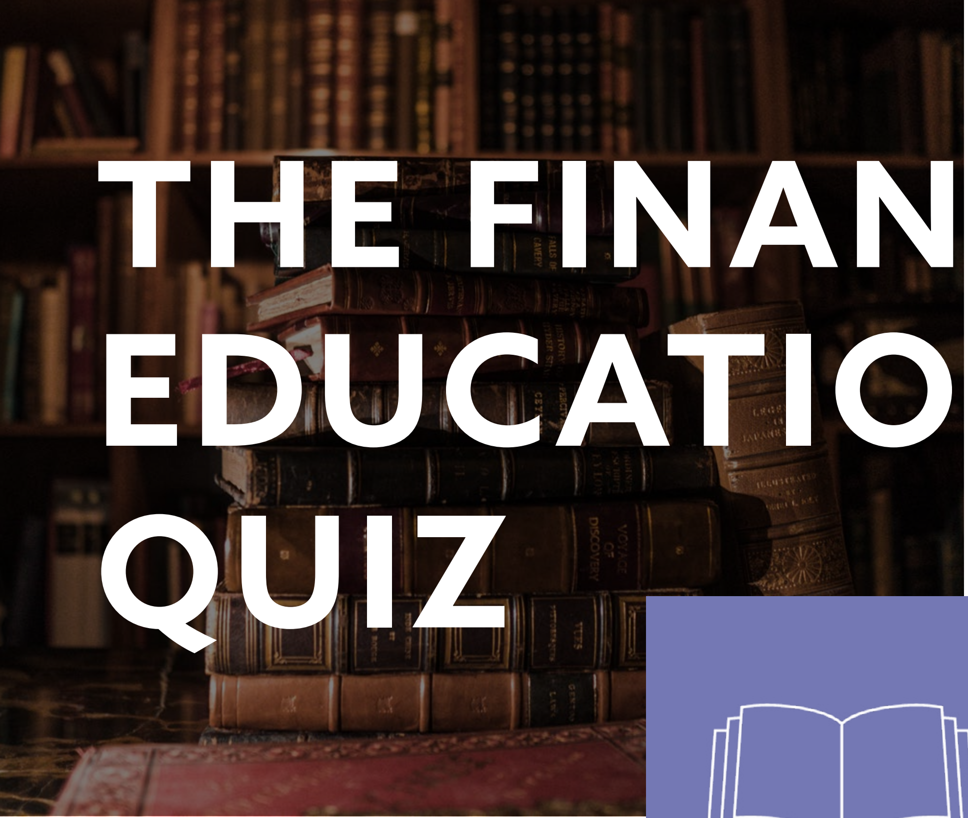
9. Why an emergency fund is important

An emergency fund can provide security when things go wrong. Yet, it's often not until the unexpected happens that it's thought about. Talking about the importance of creating a financial safety net with young adults can help improve their security. It's often advised that families have three to six months' of expenses in an emergency account. This can seem like a daunting figure, but focusing on adding regular payments to an account to reach this goal can make it seem more manageable.

10. When to consider investing over saving

By the time they reach young adulthood, people will be familiar with saving. But investing is often overlooked, and it could mean they miss out on a way to help their money grow.

Looking at when it's appropriate to invest can provide long-term financial security. As a general rule, you should only invest with a long-term time frame in mind and in a way that aligns with your risk profile. Discussing how investing works, the associated risks, and what investments are regulated can help them take their first steps into investing when the time is right.



THE FINANCIAL EDUCATION QUIZ

Test your child's financial knowledge (and your own!), with our financial education quiz; how many can you answer correctly?

1. What is the maximum an adult can add to an ISA each tax year?

a) There's no limit

b) £10,000

c) £40,000

d) £20,000

2. What is the maximum amount the Financial Services Compensation Scheme (FSCS) can protect in an individual savings account?

a) £85,000

b) £50,000

c) £100,000

d) £20,000

3. Which phrase best describes a "dividend"?

a) The tax investors pay when investments deliver a return

b) The overall return an investment portfolio delivers in the long term

c) A sum of money paid regularly by companies to its shareholders from its profits

d) The value an investment has increased by

4. How much is the Income Tax Personal Allowance for the 2023/24 tax year?

a) £10,600

b) £28,000

c) £12,570

d) £15,320

5. If you're a basic-rate taxpayer, what percentage of your monthly pay is deducted for National Insurance?

a) 10%

b) 7%

c) 5%

d) Nothing

6. What is the minimum amount an employer must contribute to an employee's pension if they're automatically enrolled?

a) 5%

b) 3%

c) 8%

d) 2%

7. When seeking a mortgage, what is the maximum you will usually be able to borrow?

a) 3x income

b) 4.5x income

c) 6.5x income

d) 4x income

8. How much is the full State Pension worth for the 2023/24 tax year?

a) £12,042

b) £10,600

c) £9,339

d) £15,754

FINANCIAL EDUCATION ISN'T JUST ABOUT PAYING THE BILLS

Financial education can help your children be more secure and live independently. But the benefits go far beyond simply paying the bills on time and having an emergency fund to fall back on. Having confidence in the financial decisions they make can improve overall wellbeing.

A recent Aegon study found that the way we think about money and our relationship to personal finances is just as important for wellbeing as how much we have in the bank. The Financial Wellbeing Index found that seemingly simple steps can help improve people's outlook. Among these mindset building blocks are some of the lessons you can teach children, including:

- Understanding what makes you happy and focusing on this when making decisions
- Having a clear picture of what your future goals are
- Making savvy social comparisons, whether with peers or celebrities.

Making money something you talk about at home can have a positive impact on the relationship your child has with money as they reach adulthood.

RESOURCES

MoneyHelper

MoneyHelper is provided by the Money & Pensions Service to help make financial decisions clearer. It includes sections on how to talk to children and teenagers about money, as well as providing useful activities and tips.

Financial Capability Strategy

The Financial Capability Strategy sets out how the Money & Pensions Service is helping children access financial education. On the website, you can find an interactive map about financial education projects taking place near you and resources that could help boost learning at home.

Values, Money and Me

Values, Money and Me is a free online teaching resource from Experian that became available to all to help parents when homeschooling during the pandemic. It aims to help children aged from 5 to 11 develop their financial knowledge and abilities.

High street banks

Many high street banks offer financial education programmes and resources aimed at children. They can be a great source of ideas and games, even if you don't bank with them. For example, NatWest's MoneySense has games and activities that you can use at home and HSBC has a hub where you can access resources based on the age of your child.

Aretian Wealth Management

As your financial planner, we're here to help you achieve peace of mind. In many cases, this includes incorporating your family's financial security into your financial plan. If you have any questions, you can contact us:

Contact Us

Phone: 020 4526 4444

Email: info@aretianwealth.co.uk

Please note: This guide is for general information only and does not constitute advice. The information is aimed at retail clients only.

The value of your investment can go down as well as up and you may not get back the full amount you invested. Past performance is not a reliable indicator of future performance.

A pension is a long-term investment. The fund value may fluctuate and can go down, which would have an impact on the level of pension benefits available. Your pension income could also be affected by the interest rates at the time you take your benefits. The tax implications of pension withdrawals will be based on your individual circumstances, tax legislation and regulation, which are subject to change in the future.

The financial education quiz

Answers: 1. D 2. A 3. C 4. C 5. A 6. B 7. B 8. B